

NINETY-FOURTH INTERNATIONAL ATLANTIC ECONOMIC CONFERENCE

Government deficits, interest rates and trade imbalances

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OCTOBER 8, 2022



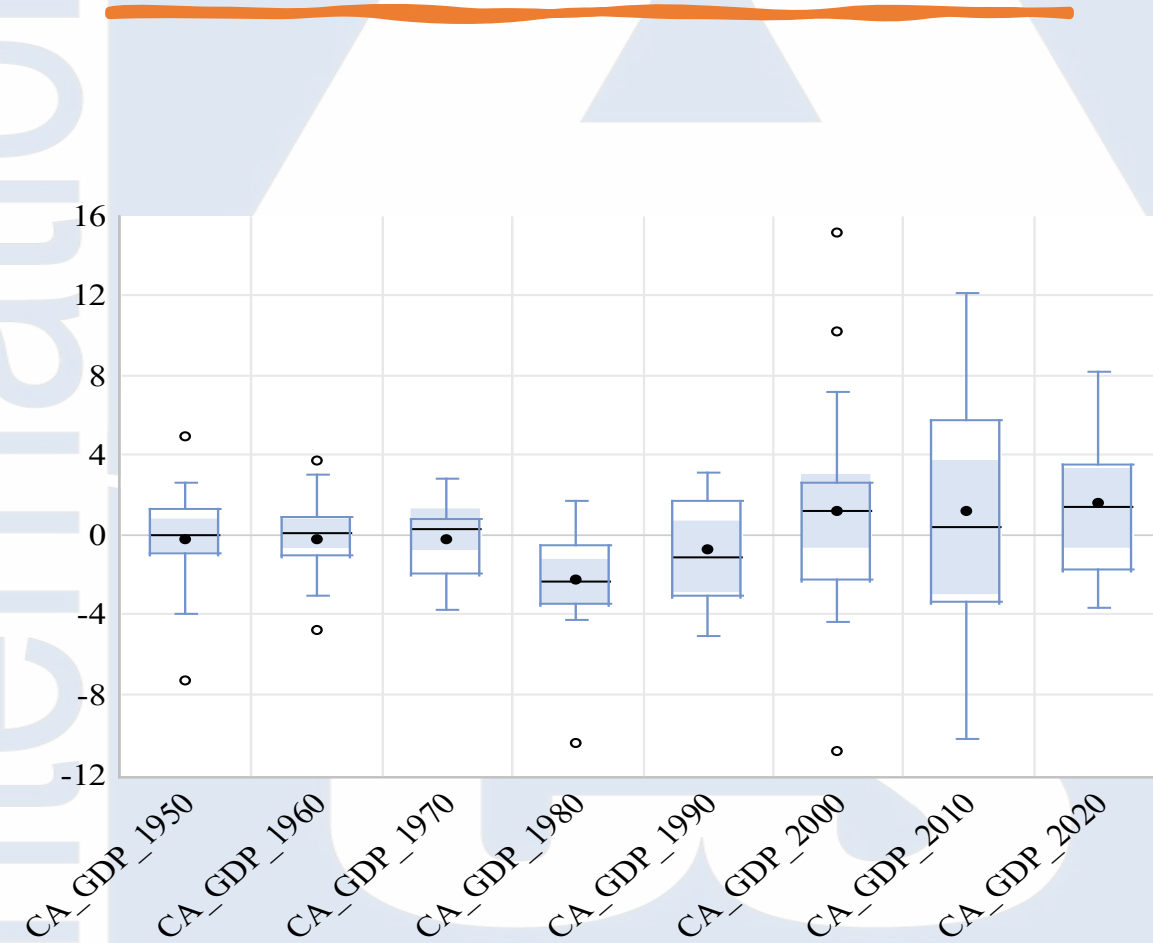
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The 94th International Atlantic Economic Conference
Washington, D.C., 6-9 October 2022

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- This paper explores the size and causes of trade imbalances within the group of developed countries.
 - Australia, Belgium, Canada, Denmark, Finland, France, Germany, Ireland, Italy, Japan, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the U.K. and the U.S.
 - Jordà-Schularick-Taylor Macrohistory Database (<https://www.macrohistory.net/database/>)

Increasing current account surpluses and deficits after 1980



Two possible explanations

Two possible explanations

- Divergent economic policies
 - Fiscal policy – twin-deficits
 - Monetary policy
- Capital flows after the collapse of Bretton Woods
 - Previous lecture by Bob Aliber

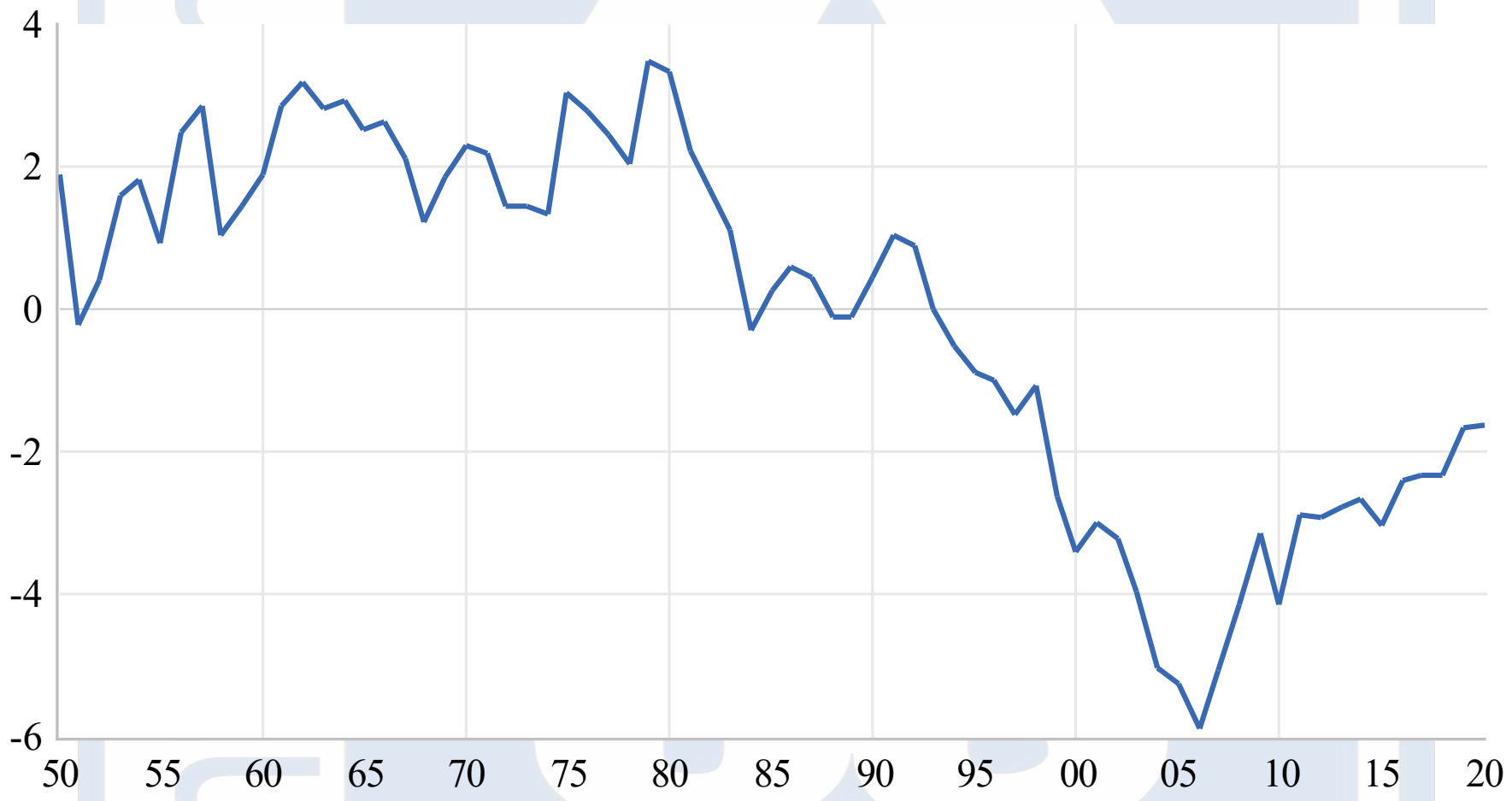
Principal components analysis

Current account surpluses

Number	Value	Difference	Proportion	Cumulative Value
PC1	6.48	3.42	0.36	6.48
PC2	3.06	0.78	0.17	9.54
PC3	2.28	1.06	0.13	11.81
PC4	1.22	0.22	0.07	13.03

Variable	PC 1	PC 2	PC 3	PC 4
Australia	-0.17	0.20	0.03	0.52
Belgium	0.14	-0.13	0.44	-0.27
Canada	0.20	-0.32	0.04	0.31
Denmark	0.28	0.31	0.06	0.09
Finland	0.21	-0.28	0.17	0.38
France	0.02	-0.27	0.40	0.05
Germany	0.22	0.39	-0.18	0.03
Ireland	0.07	0.04	0.41	-0.36
Italy	-0.07	0.18	0.47	0.27
Japan	0.26	0.03	0.11	-0.08
Netherlands	0.27	0.29	-0.02	0.07
Norway	0.34	-0.04	-0.07	0.06
Portugal	-0.17	0.34	0.29	-0.06
Spain	-0.15	0.35	0.27	0.18
Sweden	0.33	0.06	-0.01	0.27
Switzerland	0.34	0.00	0.11	-0.07
U.K.	-0.25	-0.28	0.06	0.24
U.S.	-0.36	0.08	0.02	0.02

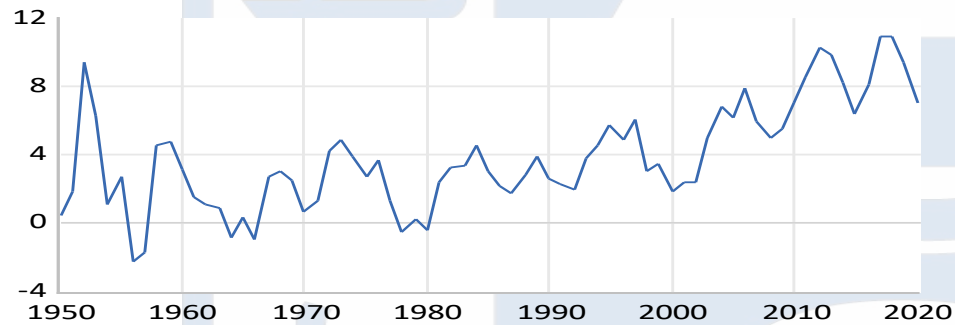
First PC for current account



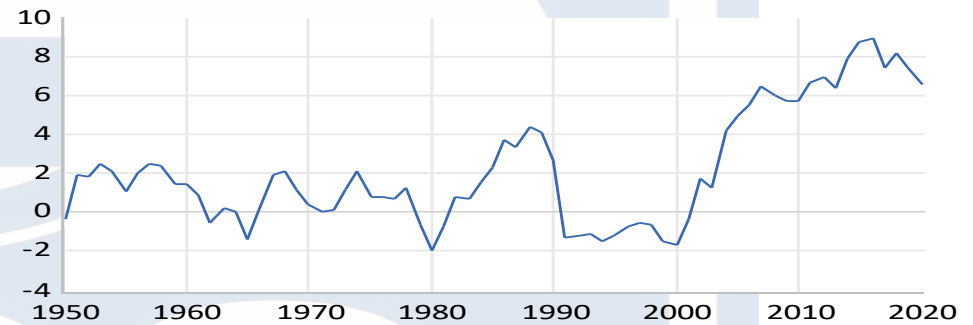
Current account surplus countries



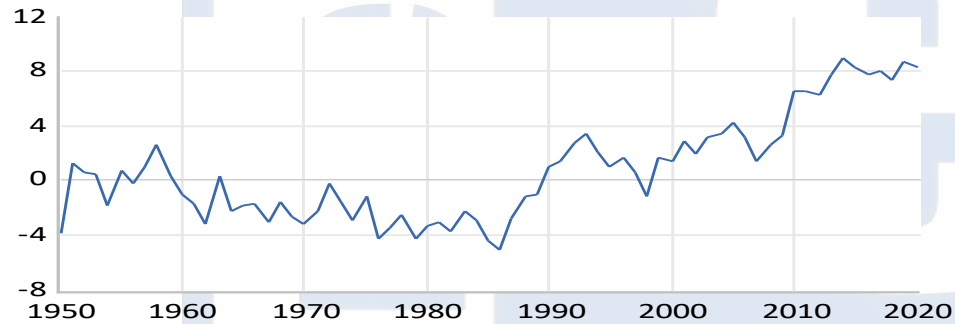
Netherlands



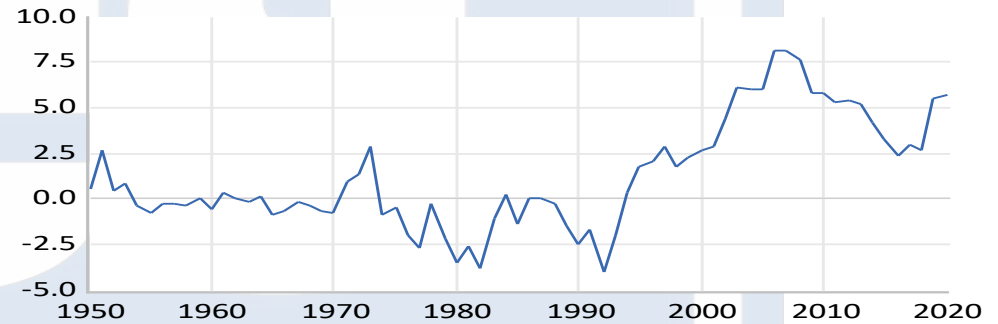
Germany



Denmark



Sweden

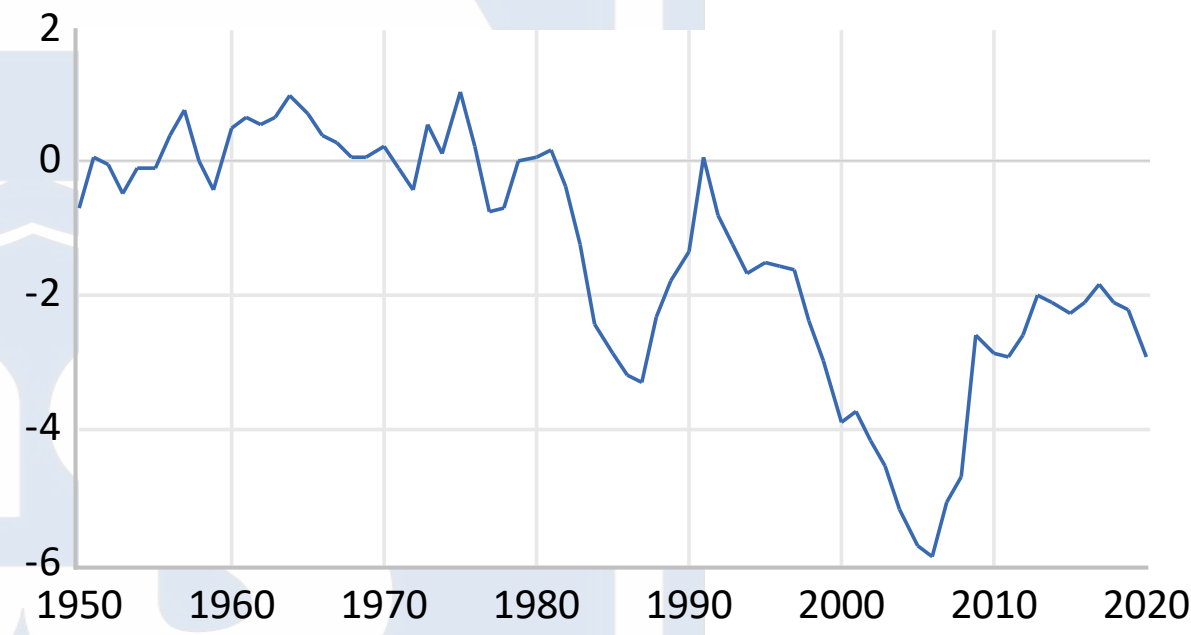
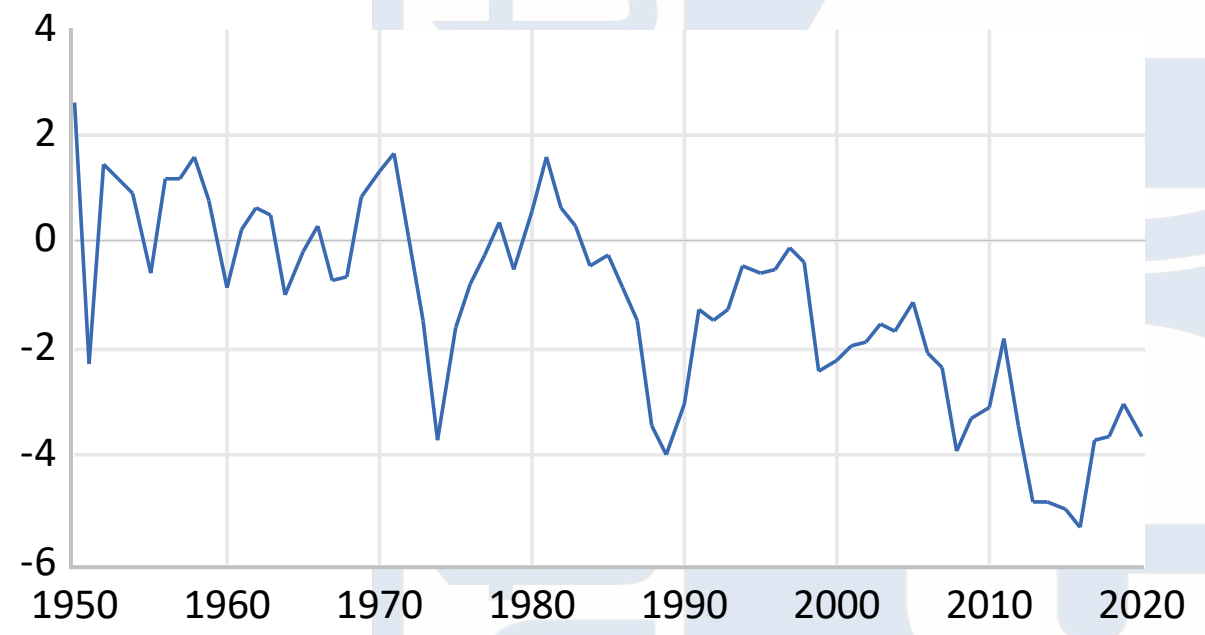


Current account deficit countries



United Kingdom

United States

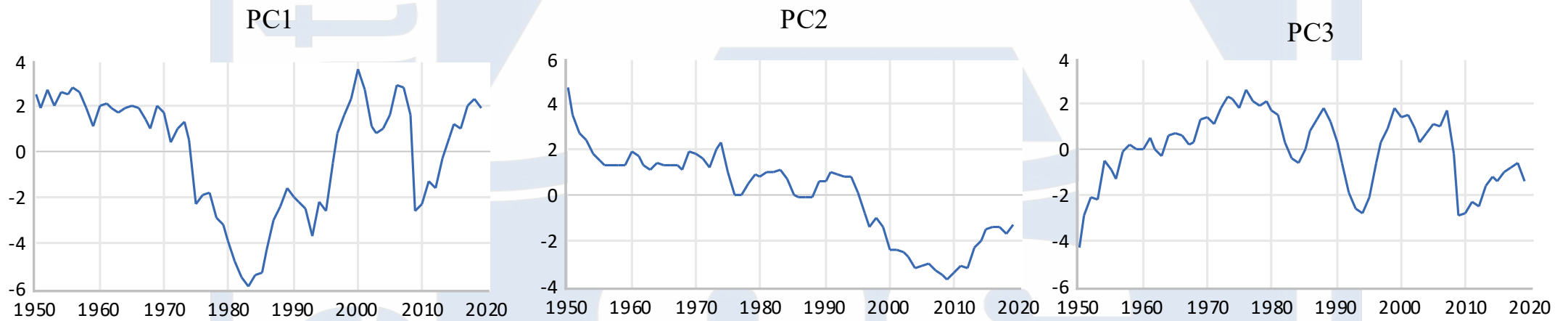


Government budget surpluses

Number	Value	Difference	Proportion	Cumulative Value	Cumulative Proportion
1	6.50	2.76	0.36	6.50	0.36
2	3.74	1.27	0.21	10.24	0.57
3	2.46	1.18	0.14	12.70	0.71
4	1.29	0.21	0.07	13.99	0.78

Variable	PC 1	PC 2	PC 3	PC 4
Australia	0.09	-0.25	0.39	0.09
Belgium	0.31	-0.23	-0.11	-0.15
Canada	0.34	-0.19	0.05	-0.11
Denmark	0.14	-0.23	0.32	0.19
Finland	-0.07	-0.19	0.36	0.30
France	0.01	0.23	0.47	0.13
Germany	0.22	0.14	-0.27	0.32
Ireland	0.34	-0.08	0.06	-0.22
Italy	0.33	-0.10	-0.21	-0.08
Japan	0.16	0.41	-0.08	0.08
Netherlands	0.28	0.11	-0.08	-0.03
Norway	0.14	-0.44	-0.03	0.07
Portugal	0.32	0.19	-0.11	0.03
Spain	0.30	0.15	0.25	-0.04
Sweden	0.30	-0.18	0.06	0.22
Switzerland	0.11	0.09	-0.19	0.73
U.K.	0.04	0.43	0.30	0.00
U.S.	0.26	0.21	0.21	-0.25

Principal components for government surpluses



Yield on long government bonds

Number	Value	Difference	Proportion	Cumulative Value	Cumulative Proportion
1	6.50	2.76	0.36	6.50	0.36
2	3.74	1.27	0.21	10.24	0.57
3	2.46	1.18	0.14	12.70	0.71
4	1.29	0.21	0.07	13.99	0.78

Variable	PC 1	PC 2	PC 3	PC 4
Australia	0.25	-0.22	0.09	0.17
Belgium	0.27	0.02	0.02	-0.09
Canada	0.27	-0.12	-0.08	0.05
Denmark	0.26	0.06	-0.16	-0.37
Finland	0.11	0.47	0.68	0.18
France	0.26	0.10	0.10	-0.27
Germany	0.23	0.34	-0.10	0.21
Italy	0.26	-0.09	0.11	-0.26
Japan	0.19	0.47	0.05	-0.40
Netherlands	0.26	0.08	-0.28	0.04
Norway	0.25	-0.17	0.11	0.33
Portugal	0.23	-0.34	0.19	-0.13
Spain	0.23	-0.28	0.38	0.01
Sweden	0.27	-0.11	0.01	0.21
Switzerland	0.23	0.27	-0.25	0.52
U.K.	0.25	0.07	-0.33	-0.08
U.S.	0.26	-0.16	-0.12	-0.03

First PC for yield on long government bonds



Conclusions

- There is a rising gap between current account surpluses and deficits after 1980.
- The rise cannot be explained by divergent fiscal or monetary policies.
- The rising gap is consistent with an effect of increased capital flows on trade deficits and surpluses.